

CVR ENERGY INC
Form 10-Q
November 05, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 001-33492

CVR ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

2277 Plaza Drive, Suite 500

Sugar Land, Texas

(Address of principal executive offices)

61-1512186

(I.R.S. Employer Identification No.)

77479

(Zip Code)

Registrant's telephone number, including area code:

(281) 207-3200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 or Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

There were 86,250,079 shares of the registrant's common stock outstanding at November 2, 2009.

CVR ENERGY, INC. AND SUBSIDIARIES

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For The Quarter Ended September 30, 2009**

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GLOSSARY OF SELECTED TERMS

The following are definitions of certain industry terms used in this Form 10-Q.

2-1-1 crack spread The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of heating oil. The 2-1-1 crack spread is expressed in dollars per barrel.

Ammonia Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

Backwardation markets Market situation in which futures prices are lower in succeeding delivery months. Also known as an inverted market. The opposite of contango.

Barrel Common unit of measure in the oil industry which equates to 42 gallons.

Blendstocks Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gasoline, fluid catalytic cracking unit or FCCU gasoline, ethanol, reformat or butane, among others.

bpd Abbreviation for barrels per day.

Bulk sales Volume sales through third party pipelines, in contrast to tanker truck quantity sales.

Capacity Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as feedstock costs, product values and downstream unit constraints.

Catalyst A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

Common units The class of interests issued under the limited liability company agreements governing Coffeyville Acquisition LLC, Coffeyville Acquisition II LLC and Coffeyville Acquisition III LLC, which provide for voting rights and have rights with respect to profits and losses of, and distributions from, the respective limited liability companies.

Contango markets Markets that are characterized by prices for future delivery that are higher than the current or spot price of the commodity.

Crack spread A simplified calculation that measures the difference between the price for light products and crude oil. For example, the 2-1-1 crack spread is often referenced and represents the approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of diesel fuel.

Distillates Primarily diesel fuel, kerosene and jet fuel.

Farm belt Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

Feedstocks Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products.

Heavy crude oil A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

Independent petroleum refiner A refiner that does not have crude oil exploration or production operations. An independent refiner purchases the crude oil used as feedstock in its refinery operations from third parties.

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Light crude oil A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

Magellan Magellan Midstream Partners L.P., a publicly traded company whose business is the transportation, storage and distribution of refined petroleum products.

MMBtu One million British thermal units: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

Natural gas liquids Natural gas liquids, often referred to as NGLs, are feedstocks used in the manufacture of refined fuels. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

PADD II Midwest Petroleum Area for Defense District, which includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee and Wisconsin.

Petroleum coke (Pet coke) A coal-like substance that is produced during the refining process.

Refined products Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

Sour crude oil A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

Sweet crude oil A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

Throughput The volume processed through a unit or a refinery.

Turnaround A periodically required standard procedure to refurbish and maintain a refinery that involves the shutdown and inspection of major processing units and occurs every three to four years.

UAN UAN is a solution of urea and ammonium nitrate in water used as a fertilizer.

WTI West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an American Petroleum Institute gravity, or API gravity, between 39 and 41 and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

WTS West Texas Sour crude oil, a relatively light, sour crude oil characterized by an API gravity of 30-32 degrees and a sulfur content of approximately 2.0 weight percent.

Yield The percentage of refined products that is produced from crude and other feedstocks.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2009 | December 31, 2008 |
|--|--|------------------------------|
| | (unaudited) | |
| | (in thousands, except share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 86,870 | \$ 8,923 |
| Restricted cash | | 34,560 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,087 and \$4,128, respectively | 54,082 | 33,316 |
| Inventories | 228,702 | 148,424 |
| Prepaid expenses and other current assets | 28,823 | 37,583 |
| Receivable from swap counterparty | 3,680 | 32,630 |
| Insurance receivable | | 11,756 |
| Income tax receivable | 11,375 | 40,854 |
| Deferred income taxes | 35,835 | 25,365 |
| Total current assets | 449,367 | 373,411 |
| Property, plant, and equipment, net of accumulated depreciation | 1,147,779 | 1,178,965 |
| Intangible assets, net | 385 | 410 |
| Goodwill | 40,969 | 40,969 |
| Deferred financing costs, net | 2,150 | 3,883 |
| Receivable from swap counterparty | | 5,632 |
| Insurance receivable | 1,000 | 1,000 |
| Other long-term assets | 4,957 | 6,213 |
| Total assets | \$ 1,646,607 | \$ 1,610,483 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 4,789 | \$ 4,825 |
| Note payable and capital lease obligation | 14,200 | 11,543 |
| Payable to swap counterparty | | 62,375 |
| Accounts payable | 102,812 | 105,861 |
| Personnel accruals | 30,376 | 10,350 |

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|--|---------------------|---------------------|
| Accrued taxes other than income taxes | 17,831 | 13,841 |
| Deferred revenue | 8,240 | 5,748 |
| Other current liabilities | 27,238 | 30,366 |
| Total current liabilities | 205,486 | 244,909 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | 475,916 | 479,503 |
| Accrued environmental liabilities, net of current portion | 3,356 | 4,240 |
| Deferred income taxes | 295,281 | 289,150 |
| Other long-term liabilities | 3,874 | 2,614 |
| Total long-term liabilities | 778,427 | 775,507 |
| Commitments and contingencies | | |
| Equity: | | |
| CVR stockholders' equity: | | |
| Common Stock \$0.01 par value per share, 350,000,000 shares authorized, 86,244,245 and 86,243,745 shares issued and outstanding, respectively | 862 | 862 |
| Additional paid-in-capital | 453,906 | 441,170 |
| Retained earnings | 197,326 | 137,435 |
| Total CVR stockholders' equity | 652,094 | 579,467 |
| Noncontrolling interest in subsidiary | 10,600 | 10,600 |
| Total equity | 662,694 | 590,067 |
| Total liabilities and equity | \$ 1,646,607 | \$ 1,610,483 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended | | Nine Months Ended | |
|---|--|--------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (unaudited) | | | |
| | (in thousands, except share data) | | | |
| Net sales | \$ 811,693 | \$ 1,580,911 | \$ 2,214,392 | \$ 4,316,417 |
| Operating costs and expenses: | | | | |
| Cost of product sold (exclusive of depreciation and amortization) | 712,730 | 1,440,355 | 1,721,970 | 3,764,026 |
| Direct operating expenses (exclusive of depreciation and amortization) | 58,419 | 56,575 | 169,100 | 179,467 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 29,165 | (7,820) | 70,443 | 20,439 |
| Net costs associated with flood | 529 | (817) | 609 | 8,842 |
| Depreciation and amortization | 21,634 | 20,609 | 63,650 | 61,324 |
| Total operating costs and expenses | 822,477 | 1,508,902 | 2,025,772 | 4,034,098 |
| Operating income (loss) | (10,784) | 72,009 | 188,620 | 282,319 |
| Other income (expense): | | | | |
| Interest expense and other financing costs | (10,932) | (9,334) | (33,593) | (30,092) |
| Interest income | 475 | 257 | 1,142 | 1,560 |
| Gain (loss) on derivatives, net | 3,116 | 76,706 | (62,978) | (50,470) |
| Loss on extinguishment of debt | | | (677) | |
| Other income, net | 82 | 428 | 280 | 858 |
| Total other income (expense) | (7,259) | 68,057 | (95,826) | (78,144) |
| Income before income tax expense (benefit) | (18,043) | 140,066 | 92,794 | 204,175 |
| Income tax expense (benefit) | (4,604) | 40,411 | 32,903 | 51,311 |
| Net income (loss) | \$ (13,439) | \$ 99,655 | \$ 59,891 | \$ 152,864 |
| Basic earnings (loss) per share | \$ (0.16) | \$ 1.16 | \$ 0.69 | \$ 1.77 |
| Diluted earnings (loss) per share | \$ (0.16) | \$ 1.16 | \$ 0.69 | \$ 1.77 |
| Weighted average common shares outstanding: | | | | |
| Basic | 86,244,245 | 86,141,291 | 86,244,049 | 86,141,291 |
| Diluted | 86,244,245 | 86,158,791 | 86,333,437 | 86,158,791 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended September 30, 2009 2008 (unaudited) (in thousands) | |
|---|--|------------|
| Cash flows from operating activities: | | |
| Net income | \$ 59,891 | \$ 152,864 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 63,650 | 61,324 |
| Provision for doubtful accounts | (41) | 3,941 |
| Amortization of deferred financing costs | 1,510 | 1,487 |
| Loss on disposition of fixed assets | 36 | 1,550 |
| Loss on extinguishment of debt | 677 | |
| Share-based compensation | 25,400 | (36,892) |
| Write-off of CVR Partners, L.P. initial public offering costs | | 2,539 |
| Changes in assets and liabilities: | | |
| Restricted cash | 34,560 | |
| Accounts receivable | (20,725) | (47,481) |
| Inventories | (80,278) | (11,373) |
| Prepaid expenses and other current assets | 11,061 | (31,799) |
| Insurance receivable | | 1,060 |
| Insurance proceeds from flood | 11,756 | 29,500 |
| Other long-term assets | 849 | (3,553) |
| Accounts payable | 1,378 | 26,200 |
| Accrued income taxes | 29,479 | 9,428 |
| Deferred revenue | 2,492 | 2,198 |
| Other current liabilities | 8,223 | 6,123 |
| Payable to swap counterparty | (27,793) | (86,109) |
| Accrued environmental liabilities | (884) | (279) |
| Other long-term liabilities | 1,260 | 87 |
| Deferred income taxes | (4,339) | 24,028 |
| Net cash provided by operating activities | 118,162 | 104,843 |
| Cash flows from investing activities: | | |
| Capital expenditures | (36,495) | (67,473) |
| Net cash used in investing activities | (36,495) | (67,473) |
| Cash flows from financing activities: | | |
| Revolving debt payments | (72,200) | (453,200) |
| Revolving debt borrowings | 72,200 | 453,200 |
| Principal payments on long-term debt | (3,623) | (3,660) |

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| | | |
|---|-----------|-----------|
| Payment of financing costs | (17) | |
| Payment of capital lease obligation | (80) | (940) |
| Deferred costs of CVR Partners, L.P. initial public offering | | (2,429) |
| Deferred costs of CVR Energy, Inc. convertible debt offering | | (988) |
| Net cash used in financing activities | (3,720) | (8,017) |
| Net increase in cash and cash equivalents | 77,947 | 29,353 |
| Cash and cash equivalents, beginning of period | 8,923 | 30,509 |
| Cash and cash equivalents, end of period | \$ 86,870 | \$ 59,862 |
| Supplemental disclosures: | | |
| Cash paid for income taxes, net of refunds received | \$ 7,764 | \$ 17,854 |
| Cash paid for interest, net of capitalized interest of \$1,338 and \$1,565 in 2009 and 2008, respectively | 30,084 | 35,152 |
| Non-cash investing and financing activities: | | |
| Accrual of construction in progress additions | (4,427) | (16,143) |
| Assets acquired through capital lease | | 4,827 |

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(unaudited)**

(1) Organization and History of the Company and Basis of Presentation

Organization

The Company or CVR may be used to refer to CVR Energy, Inc. and, unless the context otherwise requires, its subsidiaries. Any references to the Company as of a date prior to October 16, 2007 (the date of the restructuring as further discussed in this Note) and subsequent to June 24, 2005 are to Coffeyville Acquisition LLC (CALLC) and its subsidiaries.

The Company, through its wholly-owned subsidiaries, acts as an independent petroleum refiner and marketer in the mid-continental United States. In addition, the Company, through its majority-owned subsidiaries, acts as an independent producer and marketer of upgraded nitrogen fertilizer products in North America. The Company's operations include two business segments: the petroleum segment and the nitrogen fertilizer segment.

CALLC formed CVR Energy, Inc. as a wholly-owned subsidiary, incorporated in Delaware in September 2006, in order to effect an initial public offering. The initial public offering of CVR was consummated on October 26, 2007. In conjunction with the initial public offering, a restructuring occurred in which CVR became a direct or indirect owner of all of the subsidiaries of CALLC. Additionally, in connection with the initial public offering, CALLC was split into two entities: CALLC and Coffeyville Acquisition II LLC (CALLC II).

CVR is a controlled company under the rules and regulations of the New York Stock Exchange where its shares are traded under the symbol CVI. As of September 30, 2009, approximately 73% of its outstanding shares were beneficially owned by GS Capital Partners V, L.P. and related entities (GS or Goldman Sachs Funds) and Kelso Investment Associates VII, L.P. and related entities (Kelso or Kelso Funds).

Nitrogen Fertilizer Limited Partnership

In conjunction with the consummation of CVR's initial public offering in 2007, CVR transferred Coffeyville Resources Nitrogen Fertilizer, LLC (CRNF), its nitrogen fertilizer business, to a newly created limited partnership, CVR Partners, LP (the Partnership), in exchange for a managing general partner interest (managing GP interest), a special general partner interest (special GP interest, represented by special GP units) and a de minimis limited partner interest (LP interest, represented by special LP units). This transfer was not considered a business combination as it was a transfer of assets among entities under common control and, accordingly, balances were transferred at their historical cost. CVR concurrently sold the managing GP interest to Coffeyville Acquisition III LLC (CALLC III), an entity owned by its controlling stockholders and senior management, at fair market value. The board of directors of CVR determined, after consultation with management, that the fair market value of the managing GP interest was \$10,600,000. This interest has been classified as a noncontrolling interest included as a separate component of equity in the Consolidated Balance Sheets at September 30, 2009 and December 31, 2008.

CVR owns all of the interests in the Partnership (other than the managing GP interest and the associated incentive distribution rights (IDRs)) and is entitled to all cash distributed by the Partnership except with respect to IDRs. The managing general partner is not entitled to participate in Partnership distributions except with respect to its IDRs,

which entitle the managing general partner to receive increasing percentages (up to 48%) of the cash the Partnership distributes in excess of \$0.4313 per unit in a quarter. However, the Partnership is not permitted to make any distributions with respect to the IDRs until the aggregate Adjusted Operating Surplus, as defined in the Partnership's partnership agreement, generated by the Partnership through December 31, 2009, has been distributed in respect of the units held by CVR and any common units issued by the Partnership if it elects to pursue an initial public offering. In addition, the Partnership and its subsidiaries

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are currently guarantors under the credit facility of Coffeyville Resources, LLC (CRLLC), a wholly-owned subsidiary of CVR. There will be no distributions paid with respect to the IDRs for so long as the Partnership or its subsidiaries are guarantors under the credit facility.

The Partnership is operated by CVR's senior management pursuant to a services agreement among CVR, the managing general partner, and the Partnership. The Partnership is managed by the managing general partner and, to the extent described below, CVR, as special general partner. As special general partner of the Partnership, CVR has joint management rights regarding the appointment, termination, and compensation of the chief executive officer and chief financial officer of the managing general partner, has the right to designate two members of the board of directors of the managing general partner, and has joint management rights regarding specified major business decisions relating to the Partnership. CVR, the Partnership, and the managing general partner also entered into a number of agreements to regulate certain business relations between the parties.

At September 30, 2009, the Partnership had 30,333 special LP units outstanding, representing 0.1% of the total Partnership units outstanding, and 30,303,000 special GP interests outstanding, representing 99.9% of the total Partnership units outstanding. In addition, the managing general partner owned the managing GP interest and the IDRs. The managing general partner contributed 1% of CRNF's interest to the Partnership in exchange for its managing GP interest and the IDRs.

In accordance with the Contribution, Conveyance, and Assumption Agreement, by and between the Partnership and the partners, dated as of October 24, 2007, if an initial private or public offering of the Partnership is not consummated by October 24, 2009, the managing general partner of the Partnership can require the Company to purchase the managing GP interest. This put right expires on the earlier of (1) October 24, 2012 or (2) the closing of the Partnership's initial private or public offering. If the Partnership's initial private or public offering is not consummated by October 24, 2012, the Company has the right to require the managing general partner to sell the managing GP interest to the Company. This call right expires on the closing of the Partnership's initial private or public offering. In the event of an exercise of a put right or a call right, the purchase price will be the fair market value of the managing GP interest at the time of the purchase determined by an independent investment banking firm selected by the Company and the managing general partner.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements include the accounts of CVR and its majority-owned direct and indirect subsidiaries. The ownership interests of noncontrolling investors in its subsidiaries are classified as a noncontrolling interest included as a separate component of equity for all periods presented. All intercompany account balances and transactions have been eliminated in consolidation. Certain information and footnotes required for complete financial statements under GAAP have been condensed or omitted pursuant to SEC rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the December 31, 2008 audited consolidated financial statements and notes thereto included in CVR's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on March 13, 2009.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Company as of September 30, 2009 and December 31, 2008, the results of operations for the three months and nine months ended September 30, 2009 and 2008, and the cash flows for the nine months ended September 30, 2009 and 2008.

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Results of operations and cash flows for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2009 or any other interim period. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

As a result of the adoption of Accounting Standards Codification (ASC) subsections regarding Noncontrolling Interests, on January 1, 2009, the noncontrolling interest for the year ended December 31, 2008 has been properly reclassified to be included in the Company s equity section of the Consolidated Balance Sheets.

The Company evaluated subsequent events, if any, that would require an adjustment to the Company s financial statements or require disclosure in the notes to the financial statements. The Company has evaluated subsequent events through November 4, 2009, the date of issuance of the condensed consolidated financial statements. (See Note 16 (Subsequent Events) for discussion.)

(2) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 (the Codification). The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than SEC guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. As required, the Company adopted this standard as of July 1, 2009. The adoption of the Codification changed the Company s references to U.S. GAAP accounting standards but did not impact the Company s financial position or results of operations.

In June 2009, the FASB issued an amendment to a previously issued standard regarding consolidation of variable interest entities. This amendment is intended to improve financial reporting by enterprises involved with variable interest entities. The provisions of the amendment are effective as of the beginning of the entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the standard, but does not believe it will have a material impact on the Company s financial position or results of operations.

In May 2009, the FASB issued general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or available to be issued. This standard became effective June 15, 2009 and is to be applied to all interim and annual financial periods ending thereafter. It requires the disclosure of the date through which the Company has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. As required, the Company adopted this standard as of April 1, 2009. As a result of this adoption, the Company provided additional disclosures regarding the evaluation of subsequent events and the date through which that evaluation took place. There is no impact on the financial position or results of operations of the Company as a result of this adoption.

In April 2009, the FASB issued guidance for determining the fair value of an asset or liability when there has been a significant decrease in market activity. In addition, this standard requires additional disclosures regarding the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during annual or interim periods. As required, the Company

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adopted this standard as of April 1, 2009. Based upon the Company's assets and liabilities currently subject to the provisions of this standard, there is no impact on the Company's financial position, results of operations or disclosures as a result of this adoption.

In June 2008, the FASB issued guidance to assist companies when determining whether instruments granted in share-based payment transactions are participating securities, which became effective January 1, 2009 and is to be applied retrospectively. Under this guidance, unvested share-based payment awards, which receive non-forfeitable dividend rights or dividend equivalents, are considered participating securities and are now required to be included in computing earnings per share under the two class method. As required, the Company adopted this standard as of January 1, 2009. Based upon the nature of the Company's share-based payment awards, it has been determined that these awards are not participating securities and, therefore, the standard currently has no impact on the Company's earnings per share calculations.

In March 2008, the FASB issued an amendment to the previously issued standard regarding the accounting for derivative instruments and hedging activities. This amendment changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedge items affect an entity's financial position, net earnings, and cash flows. As required, the Company adopted this amendment as of January 1, 2009. As a result of the adoption, the Company provided additional disclosures regarding its derivative instruments in the notes to the condensed consolidated financial statements. There is no impact on the financial position or results of operations of the Company as a result of this adoption.

In February 2008, the FASB issued guidance which defers the effective date of a previously issued standard regarding the accounting for and disclosure of fair value measurements of nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). As required, the Company adopted this guidance as of January 1, 2009. This adoption did not impact the Company's financial position or results of operations.

In December 2007, the FASB issued an amendment to a previously issued standard that establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This amendment requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests. All other requirements of this amendment must be applied prospectively. The Company adopted this amendment effective January 1, 2009, and as a result has classified the noncontrolling interest (previously minority interest) as a separate component of equity for all periods presented.

(3) Share-Based Compensation

Prior to CVR's initial public offering in October 2007, CVR's subsidiaries were held and operated by CALLC, a limited liability company. Management of CVR holds an equity interest in CALLC. CALLC issued non-voting override units to certain management members who held common units of CALLC. There were no required capital contributions for the override operating units. In connection with CVR's initial public offering, CALLC was split into

two entities: CALLC and CALLC II. In connection with this split, management's equity interest in CALLC, including both their common units and non-voting override units, was split so that half of management's equity interest was in CALLC and half was in CALLC II. CALLC was historically the primary reporting company and CVR's predecessor. In addition, in connection with the transfer of the managing GP interest of the Partnership to CALLC III in October 2007, CALLC III issued non-voting override units to certain management members of CALLC III.

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CVR, CALLC, CALLC II and CALLC III account for share-based compensation in accordance with FASB ASC 718, *Share-Based Payments*, and FASB ASC 323, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee*. CVR has been allocated non-cash share-based compensation expense from CALLC, CALLC II and CALLC III.

In accordance with FASB ASC 718, CVR, CALLC, CALLC II and CALLC III apply a fair-value based measurement method in accounting for share-based compensation. In accordance with FASB ASC 323, CVR recognizes the costs of the share-based compensation incurred by CALLC, CALLC II and CALLC III on its behalf, primarily in selling, general, and administrative expenses (exclusive of depreciation and amortization), and a corresponding capital contribution, as the costs are incurred on its behalf, following the guidance in FASB ASC 505, *Accounting for Equity Investments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*, which requires remeasurement at each reporting period through the performance commitment period, or in CVR's case, through the vesting period.

At September 30, 2009, the value of the override units of CALLC and CALLC II was derived from a probability-weighted expected return method. The probability-weighted expected return method involves a forward-looking analysis of possible future outcomes, the estimation of ranges of future and present value under each outcome, and the application of a probability factor to each outcome in conjunction with the application of the current value of the Company's common stock price with a Black-Scholes option pricing formula, as remeasured at each reporting date until the awards are vested.

The estimated fair value of the override units of CALLC III has been determined using a probability-weighted expected return method which utilizes CALLC III's cash flow projections, which are representative of the nature of interests held by CALLC III in the Partnership.

The following table provides key information for the share-based compensation plans related to the override units of CALLC, CALLC II, and CALLC III. Compensation expense amounts are disclosed in thousands.

| Award Type | Benchmark Value (per Unit) | Original Awards Issued | Grant Date | *Compensation Expense Increase (Decrease) for the Three Months Ended September 30, | | *Compensation Expense Increase (Decrease) for the Nine Months Ended September 30, | |
|-----------------------------|----------------------------|------------------------|---------------|--|----------|---|------------|
| | | | | 2009 | 2008 | 2009 | 2008 |
| Override Operating Units(a) | \$ 11.31 | 919,630 | June 2005 | \$ 962 | \$ (748) | \$ 2,449 | \$ (5,272) |
| Override Operating Units(b) | \$ 34.72 | 72,492 | December 2006 | 43 | (199) | 95 | (454) |
| Override Value Units(c) | \$ 11.31 | 1,839,265 | June 2005 | 6,353 | (6,978) | 9,442 | (10,176) |

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| | | | | | | | |
|-------------------|----------|---------|---------------|----------|------------|-----------|-------------|
| Override Value | | | | | | | |
| Units(d) | \$ 34.72 | 144,966 | December 2006 | 271 | (481) | 405 | (555) |
| Override Units(e) | \$ 10.00 | 138,281 | October 2007 | | | | (1) |
| Override Units(f) | \$ 10.00 | 642,219 | February 2008 | 1 | 510 | 5 | 511 |
| | | | Total | \$ 7,630 | \$ (7,896) | \$ 12,396 | \$ (15,947) |

* As CVR's common stock price increases or decreases, compensation expense increases or is reversed in correlation with the calculation of the fair value under the probability-weighted expected return method.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Valuation Assumptions*

Significant assumptions used in the valuation of the Override Operating Units (a) and (b) were as follows:

| | (a) Override Operating Units | | (b) Override Operating Units | |
|---|-------------------------------------|------------------|-------------------------------------|--------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Estimated forfeiture rate | None | None | None | None |
| CVR closing stock price | \$12.44 | \$8.52 | \$12.44 | \$8.52 |
| Estimated fair value | \$24.01 per unit | \$17.54 per unit | \$8.60 per unit | \$0 per unit |
| Marketability and minority interest discounts | 20% discount | 15% discount | 20% discount | 15% discount |
| Volatility | 54.3% | N/A | 54.3% | N/A |

On the tenth anniversary of the issuance of override operating units, such units convert into an equivalent number of override value units. Override operating units are forfeited upon termination of employment for cause. The explicit service period for override operating unit recipients is based on the forfeiture schedule below. In the event of all other terminations of employment, the override operating units are initially subject to forfeiture as follows:

| Minimum Period Held | Forfeiture Percentage |
|----------------------------|------------------------------|
| 2 years | 75% |
| 3 years | 50% |
| 4 years | 25% |
| 5 years | 0% |

Significant assumptions used in the valuation of the Override Value Units (c) and (d) were as follows:

| | (c) Override Value Units | | (d) Override Value Units | |
|---|---------------------------------|-----------------|---------------------------------|--------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Estimated forfeiture rate | None | None | None | None |
| Derived service period | 6 years | 6 years | 6 years | 6 years |
| CVR closing stock price | \$12.44 | \$8.52 | \$12.44 | \$8.52 |
| Estimated fair value | \$18.52 per unit | \$7.06 per unit | \$8.60 per unit | \$0 per unit |
| Marketability and minority interest discounts | 20% discount | 15% discount | 20% discount | 15% discount |

| | | | | |
|------------|-------|-----|-------|-----|
| Volatility | 54.3% | N/A | 54.3% | N/A |
|------------|-------|-----|-------|-----|

Unless the compensation committee of the board of directors of CVR takes an action to prevent forfeiture, override value units are forfeited upon termination of employment for any reason, except that in the event of termination of employment by reason of death or disability, all override value units are initially subject to forfeiture as follows:

| Minimum Period Held | Forfeiture Percentage |
|--------------------------------|----------------------------------|
| 2 years | 75% |
| 3 years | 50% |
| 4 years | 25% |
| 5 years | 0% |

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(e) *Override Units* In accordance with FASB ASC 718, using a binomial and a probability-weighted expected return method which utilized CALLC III's cash flows projections which includes expected future earnings and the anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately \$3,000. In accordance with FASB ASC 323, as a non-contributing investor, CVR also recognized income equal to the amount that its interest in the investee's net book value has increased (that is its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation cost. As of September 30, 2009 these units were fully vested. Significant assumptions used in the valuation were as follows:

| | |
|--|-----------------|
| Estimated forfeiture rate | None |
| Grant date valuation | \$0.02 per unit |
| Marketability and minority interest discount | 15% discount |
| Volatility | 34.7% |

(f) *Override Units* In accordance with FASB ASC 718, using a probability-weighted expected return method which utilized CALLC III's cash flows projections which includes expected future earnings and the anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately \$3,000. In accordance with FASB ASC 323, as a non-contributing investor, CVR also recognized income equal to the amount that its interest in the investee's net book value has increased (that is its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation cost. Of the 642,219 units issued, 109,720 were immediately vested upon issuance and the remaining units are subject to a forfeiture schedule. Significant assumptions used in the valuation were as follows:

| | 2009 | September 30, 2008 |
|--|------------------------------|------------------------------|
| Estimated forfeiture rate | None | None |
| Derived Service Period | Based on forfeiture schedule | Based on forfeiture schedule |
| Estimated fair value | \$0.03 per unit | \$3.77 per unit |
| Marketability and minority interest discount | 20% discount | 20% discount |
| Volatility | 47.0% | 45.0% |

At September 30, 2009, assuming no change in the estimated fair value at September 30, 2009, there was approximately \$10,381,000 of unrecognized compensation expense related to non-voting override units. This expense is expected to be recognized over a remaining period of approximately three years as follows (in thousands):

| | |
|---|-------------------------------------|
| Override Operating Units | Override Value Units |
|---|-------------------------------------|

| | | | | |
|---------------------------------------|----|-----|----|-------|
| Three months ending December 31, 2009 | \$ | 266 | \$ | 1,401 |
| Year ending December 31, 2010 | | 504 | | 5,559 |
| Year ending December 31, 2011 | | | | 2,651 |
| | \$ | 770 | \$ | 9,611 |

Phantom Unit Plans

CVR, through a wholly-owned subsidiary, has two Phantom Unit Appreciation Plans (the Phantom Unit Plans) whereby directors, employees, and service providers may be awarded phantom points at the discretion of the board of directors or the compensation committee. Holders of service phantom points have rights to receive

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

distributions when holders of override operating units receive distributions. Holders of performance phantom points have rights to receive distributions when holders of override value units receive distributions. There are no other rights or guarantees and the plan expires on July 25, 2015, or at the discretion of the compensation committee of the board of directors. As of September 30, 2009, the issued Profits Interest (combined phantom points and override units) represented 15.0% of combined common unit interest and Profits Interest of CALLC and CALLC II. The Profits Interest was comprised of approximately 11.1% of override interest and approximately 3.9% of phantom interest. In accordance with FASB ASC 505, the expense associated with these awards for 2009 is based on the current fair value of the awards which was derived from a probability-weighted expected return method. The probability-weighted expected return method involves a forward-looking analysis of possible future outcomes, the estimation of ranges of future and present value under each outcome, and the application of a probability factor to each outcome in conjunction with the application of the current value of the Company's common stock price with a Black-Scholes option pricing formula, as remeasured at each reporting date until the awards are settled. Based upon this methodology, the service phantom interest and performance phantom interest were valued at \$23.44 and \$18.28 per point, respectively, at September 30, 2009. In accordance with FASB ASC 505, using the September 30, 2008 CVR stock closing price to determine the Company's equity value, through an independent valuation process, the service phantom interest and performance phantom interest were valued at \$17.54 and \$7.06 per point, respectively. CVR has recorded approximately \$16,547,000 and \$3,882,000 in personnel accruals as of September 30, 2009 and December 31, 2008, respectively. Compensation expense for the three and nine months ended September 30, 2009 related to the Phantom Unit Plans was \$8,166,000 and \$12,665,000, respectively. Compensation expense related to the Phantom Unit Plan for the three and nine months ended September 30, 2008 was reversed by \$(17,977,000) and \$(21,233,000), respectively.

At September 30, 2009, assuming no change in the estimated fair value at September 30, 2009, there was approximately \$3,486,000 of unrecognized compensation expense related to the Phantom Unit Plans. This is expected to be recognized over a remaining period of approximately two years.

Long Term Incentive Plan

CVR has a Long Term Incentive Plan (LTIP) which permits the grant of options, stock appreciation rights, or SARS, non-vested shares, non-vested share units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock).

Stock Options

As of September 30, 2009, there have been a total of 32,350 stock options granted, of which 10,786 have vested as of September 30, 2009. As of December 31, 2008, 6,302 options were vested and an additional 3,034 vested in the third quarter of 2009, respectively. There were no additional grants or forfeitures of stock options for the nine months ended September 30, 2009. As of September 30, 2009, there was approximately \$77,000 of total unrecognized compensation cost related to stock options to be recognized over a weighted-average period of approximately one and one-half years.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Non-Vested Stock*

A summary of non-vested stock grant activity and changes during the nine months ended September 30, 2009 is presented below:

| Non-Vested Stock | Grants | Weighted-Average Grant-Date Fair Value |
|---|---------------|---|
| Outstanding at January 1, 2009 (non-vested) | 78,666 | \$ 6.62 |
| Vesting and transfer of ownership to recipients | (500) | 4.14 |
| Granted | 25,000 | 7.59 |
| Forfeited | (3,100) | 4.14 |
| Outstanding at September 30, 2009 (non-vested) | 100,066 | \$ 6.95 |

Through the LTIP, shares of non-vested stock have been granted to employees and directors of the Company. These shares generally vest over a three-year period. As of September 30, 2009, there was approximately \$329,000 of total unrecognized compensation cost related to non-vested shares to be recognized over a weighted-average period of approximately two years.

Compensation expense recorded for the three months ended September 30, 2009 and 2008 related to the non-vested stock and stock options was \$125,000 and \$102,000, respectively. Compensation expense recorded for the nine months ended September 30, 2009 and 2008 related to non-vested stock and stock options was \$340,000 and \$288,000, respectively.

(4) Inventories

Inventories consist primarily of crude oil, blending stock and components, work in progress, fertilizer products, and refined fuels and by-products. Inventories are valued at the lower of the first-in, first-out (FIFO) cost or market for fertilizer products, refined fuels and by-products for all periods presented. Refinery unfinished and finished products inventory values were determined using the ability-to-bear process, whereby raw materials and production costs are allocated to work-in-process and finished products based on their relative fair values. Other inventories, including other raw materials, spare parts, and supplies, are valued at the lower of moving-average cost, which approximates FIFO, or market. The cost of inventories includes inbound freight costs.

Inventories consisted of the following (in thousands):

| September 30, 2009 | December 31, 2008 |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

| | | | | |
|-----------------------------|----|---------|----|---------|
| Finished goods | \$ | 86,387 | \$ | 61,008 |
| Raw materials and catalysts | | 103,580 | | 45,928 |
| In-process inventories | | 13,539 | | 14,376 |
| Parts and supplies | | 25,196 | | 27,112 |
| | \$ | 228,702 | \$ | 148,424 |

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(5) Property, Plant, and Equipment**

A summary of costs for property, plant, and equipment is as follows (in thousands):

| | September 30, 2009 | December 31, 2008 |
|--------------------------|-------------------------------|------------------------------|
| Land and improvements | \$ 17,977 | \$ 17,383 |
| Buildings | 23,314 | 22,851 |
| Machinery and equipment | 1,302,529 | 1,288,782 |
| Automotive equipment | 9,254 | 7,825 |
| Furniture and fixtures | 8,053 | 7,835 |
| Leasehold improvements | 1,301 | 1,081 |
| Construction in progress | | |